

RELEVANCE OF INTEREST FREE MICRO FINANCING WITH SPECIAL REFERENCE TO MALAPPURAM DISTRICT IN KERALA

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I. INTRODUCTION

The rural economy is portraying by a complex scenario regarding the aspect of loan. The broke and oppressed households usually have little or no land, low education, no particular skills and continual high levels of inequality. Dearth of capital also thwarts them from starting their own endeavor. Since main stream banking institutions are unenthusiastic to lend to rural people, they forced to move toward the informal moneylenders to meet personal and venture needs. In the space the microfinance is having a significant role to play in carving out a alcove between the banks and the informal moneylenders. The main aim of microfinance to seed capital to the micro enterprises and small businesses through that to raise their income levels and improve the standard of living, through the medium of microcredit.

Micro financing refers to provision of financial services usually in the form of small sized financial transactions, which usually fall outside the reach of formal finance which includes provision of thrift, credit and other financial activities and also refers to the provision of financial services to poor or low income clients, including consumers and self employed.

The concept of microfinance is best described by Bouman (1990) in his book 'Small, Short and Unsecured'. According to him microfinance is 'the provision of very small loans that are repaid within

short periods of time, and is essentially used by low income individuals and households who have few assets that can be used as collateral'.

The deprived peoples are unable to access the formal banking system as they are not in a position to provide formal collateral. the increased cost associated with the administrative, screening and monitoring activities of the banks. These costs are at times prohibitive and are added to the amount disbursed. the emergence of microfinance programs since the late 1970s, the poor in developing economies have started gaining access to small loans. The Grameen Bank system of group lending (established in 1976 by Mohammad Yunus, a Bengal banker and economist) has been extensively virtualized in other developing countries. Data confirmed that between December 1997 and 2010 microfinance institutions doubled from 618 to 3,133. During the past 10 years, these programs have been life line in many developing economies too.

Benefits of Microfinance

The microfinance become a life line for the deprive people to start new productive ventures that would help them generating income and wealth, that improves the financial status of the concerned person leading to better education for children, better nutrition among family members and better standard of living, would ultimately help in reducing the income inequality and social exclusion.

This is presented in Figure



The main advantages of microfinance are as follows:

- Microfinance provides better financial services for deprived people, which is denied by the formal institutions.
- Microfinance less administrative cost compared to formal banks.
- It is easily reached to the poor.
- In eliminate intermediaries.
- They are illustrating by non-collateral loans and easy repayment options.
- Loans provided by the NIFIs are generally cheaper than that of the regional moneylenders.
- The processing time of loans by the MFIs is less.

Interest Free Micro Finance

Interest free micro financing is primarily conceived as an alternative to interest based finance. It is a financial activity under the guidance and supervision of shariah. It helps to overcome the obstruction to country's growth and development in dual ways. Firstly By avoiding interest, the reward for capital, the prices of commodities can be reduced leading to increase in consumptions to which in turn help for increase in production-income and employment opportunities.

Secondly Interest free micro financing allows the establishment of institutions creating to the diverse needs of the society after breaking the vicious circle of poverty.

Objectives

The following are the major objectives of study,

1.To study the efficiency of micro financing system by introducing interest free nature.

2.To make a comparative study about the effectiveness of micro financing (interest based) and interest free micro financing in Malappuram district in Kerala.

Methodology

The study will be based on both primary and secondary data. Primary data will be collected from beneficiaries of MFI (Micro Finance Institutions) through questionnaire and schedules. Secondary data will be collected from various secondary sources. Appropriate statistical tools were used

Sampling Design

We have examined the loan status of beneficiaries of MFI. The variables influencing the loan status of beneficiaries were formed be lacking. Hence the researcher conducted a random sample survey of 200 beneficiaries to capture the dimensions covered with in the Malappuram district, among the 20 MFIs, including 10 from Kudumbasree unit and 10 from interest free units. Each MFI contain 10 beneficiaries.

In order to understand the effectiveness of MFIs among the beneficiaries, the study gathered the information regarding educational qualification, occupational status , income level of the beneficiaries, span of loan, interest of loan, time period to avail loan, contingencies faced to avail loan, promptness of repayment, overdues and its handling.

Findings

Findings from this particular are given below

- Interest free MFIs helps to increase self employment in that particular district.

- Annual income of persons who are approaching interest free MFIs is in between Rs. 250000 – 450000.

- Majority loan taken from interest free MFIs are utilized for business, self employment and repayment of old loans.

- Time taken to avail loan is comparatively less interest free MFIs.

- Interest free MFIs are charging service charge on loan amount but comparably this amount is less.

- Interest free MFIs availing loan is less constraint.

- Accuracy of repayment of loan comparatively higher in interest free MFIs.

- Accuracy of repayment helps to reduce over dues because these financial institution not squeezing any of the beneficiaries.

- Efficiency of interest free MFIs comparatively higher. These institutions look in to the past history and psycho aspects of the beneficiaries.

Superiority of Interest Free MFIS Over Kudumbasree MFIS

- Most of the loans taken from Interest free MFIs are for business and self employment purpose.

- Interest free MFIs creates employment opportunities and income.

- In the light of repayment of interest based units always shows negativity.

- Interest based units provide loan only to the members especially women. But Interest free MFIs always welcome all category of peoples in the society.

The study clearly shows that Interest free micro finance encourages the people to take risk, at the same time encourages to seek self employment.

Through this, it indirectly encourage job and increases the quality of life of beneficiaries. From this study I suggest the Government to start interest free MFI just like other financial institutions for the betterment of the society. These institutions expand its base towards agriculture and rural area creates a positive environment to pluck farmers from money lenders and other exploiting peoples. Through this method interest free micro finance creates a positive climate to reduce the poverty

II. REFERENCE

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